

Message Text

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PAGE 01 KUALA 03159 01 OF 02 210429Z
ACTION COME-00

INFO OCT-01 EA-07 NEA-10 IO-13 ISO-00 L-03 FRB-03
OMB-01 ITC-01 SP-02 USIA-06 AGRE-00 AID-05
CIAE-00 EB-07 INR-07 LAB-04 NSAE-00 OIC-02 EPG-02
SIL-01 STR-04 TRSE-00 CEA-01 /080 W
-----210435Z 119047 /11

P R 200759Z MAY 77
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC PRIORITY 7302
INFO AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
USMISSION GENEVA
AMEMBASSY COLOMBO
AMEMBASSY SINGAPORE

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 3159

E.O. 11652: GDS
TAGS: EPAP, MY
SUBJECT: NATURAL RUBBER

REFS: A) STATE 104226, B) KUALA LUMPUR A66

1. AS REQUESTED PARA 5 REFTTEL, THE FOLLOWING INFORMATION
ON PRODUCTION AND MARKETING OF NATURAL RUBBER IN MALAYSIA
IS PROVIDED.
2. STRONG GOM COMMITMENT TO MODERNIZE NATURAL RUBBER INDUSTRY
REMAINS UNCHANGED. THIS APPROACHED FROM VARIOUS DIRECTIONS.
MALAYSIAN RUBBER RESEARCH INSTITUTE AND SISTER ORGANIZATION
IN UK, THE MALAYSIAN RUBBER PRODUCERS RESEARCH ASSOCIATION, ATTEMPTING

IMPROVE PRODUCTIVITY PER UNIT LAND AREA, REDUCE OVERALL COST
OF PRODUCTION AND IMPROVE QUALITY, PRESENTATION AND GRADING.
EFFORT HAS EXPERIENCE CONSIDERABLE SUCCESS INCLUDING
DEVELOPMENT OF HIGH YIELD PLANTING MATERIALS (CAPACITIES IN
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PAGE 02 KUALA 03159 01 OF 02 210429Z

EXCESS OF 2,500 KILOS PER HECTARE AND MATURITY IN 4 YEAR
PERIOD)
HORTICULTURAL TECHNIQUES COMBINING ROOT, TRUNK AND
CROWN SYSTEMS INTO IDEAL TREE, DEVELOPMENT OF YIELD STIMULATION
TECHNIQUES AND DEVELOPMENT OF TECHNICALLY SPECIFIED RUBBERS.

3. RUBBER INDUSTRY SMALLHOLDERS DEVELOPMENT AUTHORITY

(RISDA) RESPONSIBLE FOR UTILIZATION BY SMALLHOLDERS OF TECHNOLOGY GENERATED BY RRI. CONSIDERABLE ACREAGE HAS BEEN REPLANTED TO HIGH YIELD VARIETIES BUT MUCH REMAINS DO BE DONE. THIS ENTITY HAS GREATEST RESPONSIBILITY AND IS WEAKEST LINK IN MODERNIZATION PROCESS.

4. MALAYSIAN RUBBER DEVELOPMENT CORPORATION (MARDEC) APPROACHES MODERNIZATION THROUGH ESTABLISHMENT OF RUBBER-BASED INDUSTRIES IN MALAYSIA. OBJECTIVE IS TO INCREASE SUCH UTILIZATION TO 300,000 TONS PER YEAR BY 1987. PRESENT USAGE 30,000 TONS PER YEAR. THIS BEING UNDERTAKEN THROUGH ESTABLISHMENT OF RUBBER PROCESSING PLANTS BY MARDEC ITSELF AND THROUGH JOINT VENTURE BETWEEN MARDEC AND OTHER PARTIES, DOMESTIC AND FOREIGN.

5. MALAYSIA RUBBER EXCHANGE AND LICENSING BOARD APPROACHES MODERNIZATION THROUGH RATIONALIZATION OF MARKETING MECHANISMS WITHIN MALAYSIA AND ESTABLISHMENT OF MALAYSIAN RUBBER EXCHANGE (MRE) AS INTERNATIONAL RUBBER MARKET CONSONANT WITH MALAYSIA'S POSITION AS WORLD'D LARGEST PRODUCER NATURAL RUBBER. OBJECTIVE INCLUDES DEVELOPMENT OF MRE INTO FUTURES COMMODITY EXCHANGE ON EQUAL FOOTING WITH OTHER INTERNATIONAL RUBBER MARKETS. THIS REQUIRES CONFIDENCE IN MRE AS FREE MARKET FOR HEDGING OPERATIONS WITH PRICE DICTATED PRINCIPALLY BY MARKET FORCES, SUFFICIENT VOLUME OF TRANSACTIONS TO ATTRACT OVERSEAS DEALERS AND IMPROVEMENT OF INFRASTRUCTURAL AND SUPPORTING FACILITIES INCLUDING BANKING, PORT, SHIPPING, TELECOMS, INSURANCE AND POSTAL. THUS FAR MRE MEMBERSHIP TOTALS 183 INCLUDING 29 FOREIGN ENTITIES WHO ARE ASSOCIATE MEMBERS. LICENSING OF DOMESTIC DEALERS AND PRODUCERS MUCH MORE SUCCESSFUL IN PLANTATION

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PAGE 03 KUALA 03159 01 OF 02 210429Z

SECTOR THAN WITH SMALLHOLDERS. ONLY ABOUT 50 PERCENT OF SMALLHOLDERS HAVE BEEN LICENSED. HISTORICAL ENTREPOT TRADE AND MARKETING THROUGH SINGAPORE CAN REASONABLY BE EXPECTED DIMINSH AS MRE ACTIVITY INCREASES, BUT THIS IS CASUAL RESULT AND NOT OBJECTIVE OF EXERCISE.

6. MALAYSIAN GOVERNMENT DOES NOT USUALLY PARTICIPATE IN RUBBER MARKET, EXCEPT TO EXTENT OF PURCHASES AND SALES BY MARDEC AND TO VERY LIMITED EXTENT BY FEDERAL LAND DEVELOPMENT AUTHORITY (FELDA), WHICH DEVELOPS LARGE ESTATE-TYPE TRACTS FOR SETTLERS WHO GENERALLY EACH BUY TEN ACRES. AT END 1976, HOWEVER, FELDA HAD ONLY 311,000 ACRES UNDER RUBBER OF WHICH ONLY ONE-THIRD PRODUCING. EXCEPTION OCCURRED IN 1974 TO OFFSET VERY LOW PRICES THEN PREVAILING. NATIONAL PRICE STABILIZATION SCHEME WAS INITIATED WHICH INCLUDED PRODUCTION RESTRICTIONS, INCREASED STOCKHOLDING BY DEALERS, PACKERS AND REMILLERS, SUSPENSION OF USE OF STIMULANTS, ENFORCEMENT OF TAPPING HOLIDAYS, ACCELERATED REPLANTING AND YSTOCK PURCHASES BY GOVERNMENT ITSELF. WE UNDERSTAND TOTAL PURCHASES

AMOUNTED TO APPROXIMATELY 100,000 TONS. THIS WAS SUBSEQUENTLY
DISPOSED OF WHEN EXTERNAL DEMAND INCREASED.

7. TOTAL EXPORT DUTY AND EXPORT DUTY SURCHARGE COLLECTED BY
GOM ON RUBBER EXPORTS 1976 WERE M\$329 MILLION AND M\$173
MILLION RESPECTIVELY. TOTAL EXPORT DUTY SURCHARGES AND CESSSES
ON RUBBER EXPORTS PER POUND DURING WEEK 3/24-3/30/77 CALCULATED
ON GAZETTED PRICE OF M\$.945 PER POUND WERE-EXPORT DUTY 12
CENTS, EXPORT SURCHARGE 5 AND 7/8 CENTS, RESEARCH CESS ONE
CENT AND REPLATING CESS 4 AND 1/2 CENTS FOR TOTAL OF 23 AND
3/8 CENTS PER POUND. THIS OBVIOUSLY VERY HEAVY TAX BURDEN
WHICH MALAYSIAN ESTATE OWNERS ASSOCIATION RECENTLY CHARACTERIZED
AS "DISINCENTIVE FOR NEW INVESTMENT IN THE RUBER PLANTATION
INDUSTRY". ASSOCIATION COUNCIL HAS REQUESTED OF GOM MORE EQUITABLE
RETURN, ESPECIALLY TO SMALL PRODUCERS. RELATIVE TAX BURDEN,
OF COURSE, EVEN GREATER ON SMALLHOLDERS BECAUSE OF LOWER
PRODUCTIVITY AND VERY LARGE NUMBER OF SMALLHOLDERS ARE AT
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PAGE 04 KUALA 03159 01 OF 02 210429Z

OR BELOW NOMINAL POVERTY LEVEL. THESE TAXES ARE PASSED IN
THEIR ENTIRETY TO CONSUMERS. THE RESEARCH CESS OF ONE CENT
PER POUND IS ALLOCATED TO THE RRI. THE 4 AND 1/2 CENTS
REPLATING CESS IS ALLOCATED TO RISDA WHICH PROVIDES REPLATING
GRANTS TO SMALLHOLDERS AT RATE OF M\$600 PER ACRES. CESS ALSO
RETURNED TO ESTATES IN CASES WHERE REPLATING HAS OCCURRED.

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PAGE 01 KUALA 03159 02 OF 02 200957Z

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INFO OCT-01 EA-07 NEA-10 IO-13 ISO-00 L-03 FRB-03
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SIL-01 STR-04 TRSE-00 CEA-01 /080 W
-----201000Z 099556 /10

P R 200759Z MAY 77

FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC PRIORITY 7303
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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 3159

REPLATING CESS INFLOW EARLIER EXCEEDED OUTFLOW CONSIDERABLY. MORE QRECENTLY PACE OF REPLATING HAS INCREASED BUT SIZEABLE AMOUNT OF ACCUMULATED FUNDS REMAINS. ALL OTHER TAXES ON NR GO TO THE GENERAL FUND OF TREASURY. PART OF THESE ARE RETURNED TO SMALLHOLDERS BY GOM THROUGH MATCHING GRANT OF M\$300 PER ACRE FOR SMALLHOLDER REPLATING. TOTAL GRANT TO SMALLHOLDERS THEREFORE M\$900 PER ACRE. GENERAL VIEW IS THAT THIS NOW INADEQIATE. BALANCE OF OTHER NR TAXES NOT DIRECTLY APPORTIONED TO THE OTHER ORGANIZATIONS EXCEPT THROUGH THE BUDGET PROCESS.

8. ADDITIONAL INFORMATION ON GOM ENTITIES DEALING WITH NATURAL RUBBER REPORTED IN KL A-66 OF MAY 20, 1977, POUCHED TODAY. PLEASE NOTE THAT FIGURE IN FIRST LINE PARA 3, PAGE 4 SHOULD READ M\$.045 INSTEAD OF M\$.01.

9. MALQAYSIAN CONTROLLER OF RUBBER RESEARCH, DR. B.C. SEKHAR HAS DESCRIBED THE FUTURE OF NATURAL RUBBER DEVELOPING ALONG THE FOLLOWING LINES:
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PAGE 02 KUALA 03159 02 OF 02 200957Z

"(A) A DYNAMIC AND VIGOROUS PRODUCTION POLICY IN ALL PRODUCING COUNTRIES,
(B) THE MULTIPLICITY OF GRADES OF NATURAL RUBBER MUST DISAPPEAR AND INSTEAD THERE SHOULD BE ONE GENERAL PURPOSE TRADE, I.E. STANDARD NATURAL RUBBER (SNR) FROM THE PRODUCING REGIONS OF THE WORLD,
(C) THE CONSUMPTION FOR NATURAL RUBBER MUST BE DIVERSIFIED INTO (1) SPECIAL PURPOSE USES EMPLOYING THE ELASTOMERIC PROPERTIES, AND (II) NON-ELASTOMERIC USES BY MODIFICATION OF THE NATURAL RUBBER MOLECULE.
(D) NATURAL RUBBER SHOULD BE CONSIDERED AS A COMPOSITE MATERIAL WITH ITS LATEX, ITS TIMBER AND ITS SEEDS PROVIDING SOURCES OF RAW MATERIALS OF THE FUTURE.
(E) NATURAL RUBBER IN PRODUCING REGIONS SHOULD BE PROCESSED TO A STAGE AS NEAR THE FABRICATED PRODUCT AS POSSIBLE TO OPTIMIZE ON THE USE OF ENERGY."
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RUBBER, PRODUCTION DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 20-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977KUALA03159
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770181-0472
Format: TEL
From: KUALA LUMPUR
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770536/aaaabfci.tel
Line Count: 218
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 162c408f-c288-dd11-92da-001cc4696bcc
Office: ACTION COME
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 104226, 77 KUALA LUMPUR 66
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2440130
Secure: OPEN
Status: NATIVE
Subject: NATURAL RUBBER
TAGS: EPAP, EIND, MY
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/162c408f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009